

Investment Banking Guide



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INTRODUCTION & ACKNOWLEDGEMENT

Are you considering a career in investment banking? This guide will help you learn about the industry, develop an understanding of the recruitment process, and provide you with a plethora of resources for effective interview preparation.

Filled with guidance and advice for successful investment banking recruiting, this guidebook will help you:

- Comprehend the investment banking industry
- Understand how to navigate the recruitment process
- Develop a strategy for behavioral and technical interview preparation
- Obtain practical insights on the power and influence of networking
- Explore numerous resources to facilitate self-learning

This project would not have been possible without the time and support of Vanderbilt student Ashlyn Dong. Thank you for your significant efforts on this guide.

DISCLAIMER: This guide is intended for informational/educational purposes only. Please use the references and hyperlinked citations to access articles and up-to-date information. If you have any questions, please reach out directly to careercenter@vanderbilt.edu.

Updated Last: 8/3/2020 by Allison Otto

Table of Contents

1 Introduction	4
2 Investment Banking in a Nutshell.....	4
2.1 What is Investment Banking.....	4
2.2 Core Activities at Investment Banks	4
2.3 Investment Banking Group Structure	5
2.4 Different Types of Investment Banks	6
2.5 Major Players	7
2.6 Investment Banking Hierarchy & Deal Team Structure.....	8
2.7 Compensation & Hours.....	8
2.8 Internship Structures	9
2.9 Common Tasks for Analysts	9
3. Recruiting Components.....	11
3.1 The Recruiting Schedule.....	11
3.2 Core Recruiting Process.....	12
3.3 Non-Core Recruiting Process.....	13
3.4 Key Resources.....	17
Best Internet Resources Overall	19
4 Conferences / Rotational Programs	19
5. Alternative Options	20
6. Appendix.....	20
6.1 Overview of Career Opportunities.....	20
6.2 Hierarchy (In-depth).....	24
6.3 More Resources.....	24
6.4 Difference between Investment Banking and Commercial Banking.....	24
6.5 Investment Banking Analyst Program	25
6.6 Cold Email Templates	25
6.7 Phone Interview Cheat Sheet.....	25
6.8 Off-Cycle Recruiting	27
References.....	27

1 Introduction

This is a one-stop-shop guide that covers the ins-and-outs of the Investment Banking recruiting process. Read it through once to get familiar with the entire process, then feel free to keep it as a reference.

2 Investment Banking in a Nutshell

2.1 What is Investment Banking

Street of Walls (2019) explains that, investment banks perform two basic, critical functions. First, investment banks act as intermediaries between those entities that demand capital (e.g. corporations) and those that supply it (e.g. investors). This process is mainly facilitated through debt and equity offerings by companies. Second, investment banks advise corporations on mergers, acquisitions, restructurings, and other major corporate actions. While the majority of investment banks perform these two functions, it is important to know which products and services each bank specializes in (Street of Walls, 2019).

2.2 Core Activities at Investment Banks

Corporate Finance Institute (2020) describes how an investment bank is comprised of four main areas: investment banking division (IBD), sales and trading (S&T), Equity Research, and Asset Management.

Large global banks will typically offer all three services, whereas smaller banks usually focus more on the investment banking division side covering advisory and mergers and acquisitions (Questrom School of Business, 2019).

1. **Corporate Finance** (this function is most commonly referred to as “Investment Banking”): Assist corporations in raising capital through debt and equity capital markets, and provide advisory services on mergers and acquisitions (M&A) and other corporate transactions (Street of Walls, 2013).

2. **Sales and Trading:** Buy and sell securities and other financial instruments as an intermediary on behalf of its clients (Street of Walls, 2013).
3. **Equity Research:** Provide detailed company and industry research reports and make recommendations on whether to buy, sell, or hold public securities (Street of Walls, 2013)..
4. **Asset Management:** Provide equity, fixed income, money market, and alternative investment products and services to individual and institutional clients (Street of Walls, 2013).

➔ Go to [Appendix](#) for more detail

2.3 Investment Banking Group Structure

Wall Street Oasis (2019) describes how the investment banking division is split into two sectors: products and industries. The purpose of both is to provide advisory on transactions, mergers and acquisitions and to arrange (and occasionally even provide) financing for these transactions. Each group handles its own client accounts, and is responsible for a designated product or industry sector (Wall Street Oasis, 2019).

- **Product groups: Differentiated by what types of services or financial products the groups provide.** Typical groups include Mergers and Acquisitions (M&A), Leveraged Finance (Lev Fin), Equity Capital Markets (ECM), Debt Capital Markets (DCM) and Restructuring. These groups focus only on their specific products and can work across all industry groups. They generally work and collaborate with industry groups on the more intricate and specialized needs of a client towards the end of a deal process (Street of Walls, 2013).
- **Industry/Coverage groups: Differentiated by what types of clients the groups serve.** Typical groups include Healthcare, Technology, Media, Telecom (TMT), Financial Institutions Group (FIG), Natural Resources, Consumer & Retail (C&R), Industrials, Real Estate, Gaming and Lodging, and Financial Sponsors. Industry groups cover all companies in a specified industry, but have exposure to a variety of products including debt, equity, and M&A (Street of Walls, 2013).
 - Financial Sponsors is a unique coverage group as it does not cover a specified industry but instead serves only Private Equity firms. Private Equity firms may own

multiple “portfolio” companies across a variety of industries and have a series of unique investment banking needs (Street of Walls, 2013).

Lastly, industry groups cover all products and product groups cover all industries.

A word of caution: An analyst’s experience in a certain group can be vastly different from another group depending on the investment bank and group structure. Each bank has its own strengths and weaknesses across groups relative to its peers. One example, Goldman Sachs does not have a standard M&A group, while Morgan Stanley relies significantly on its M&A group for deal execution and less on its Industry/Coverage groups for deal execution (Street of Walls, 2013).

2.4 Different Types of Investment Banks

Bulge Bracket vs. Middle Market vs. Boutique

- Many different companies are referred to as being investment banks, and they are usually segmented according to their revenue, size of deals, geography, and services offered, often categorized by the ‘league tables’ (Lee & Lott, 2013).
- The 9 largest banks are called the ‘bulge bracket,’ followed by ‘middle market’ and ‘boutiques’ (Lee & Lott, 2013).
- Bulge bracket and middle market banks tend to be full- service while boutiques tend to focus on advisory roles and sometimes provide asset management. The line between middle market vs. boutique is fuzzy and complex. To the layperson, middle-market banks are “bigger” than boutiques but “smaller” than bulge bracket banks – which isn’t *wrong*, necessarily, but also doesn’t tell the full story (Lee & Lott, 2013).
- Elite boutiques work on the same deals as bulge bracket banks but are more focused (Lee & Lott, 2013).

2.5 Major Players

This is a list of top players across the entire spectrum of investment banks from Bulge Brackets to Middle Markets to Boutiques.

- Goldman Sachs & Co.
- Morgan Stanley
- J.P. Morgan
- Evercore
- Lazard
- Centerview Partners
- Moelis & Company
- Credit Suisse
- Bank of America Merrill Lynch (Bank of America (BOA) acquired Merrill Lynch in 2008)
- Barclays Investment Bank (Americas) (Barclays acquired the North American operations of Lehman Brothers in 2008)
- Perella Weinberg Partners
- Greenhill & Co., Inc.
- PJT Partners
- Citi Institutional Clients Group
- Jefferies
- Rothschild
- Guggenheim Securities
- UBS
- Allen & Company LLC
- Qatalyst Partners
- Houlihan Lokey
- Deutsche Bank AG
- RBC Capital Markets
- Wells Fargo & Company
- William Blair

→ Go to this [link](#) for a more thorough understanding of Bulge Bracket vs. Boutique Investment Banks

→ Go to this [link](#) for an in-depth discussion of Middle Market Investment Banks

2.6 Investment Banking Hierarchy & Deal Team Structure

Corporate hierarchy: The investment banking seniority structure is very strict. A typical hierarchy includes (from most Junior to most Senior): Analyst → Associate → Vice President → Senior Vice President/Director/Executive Director → Managing Director (Street of Walls, 2013).

- Analysts will tend to work almost exclusively with an Associate, and the Analyst-Associate pair will be responsible for the majority of deliverables in a typical client engagement.

Deal team structure: Investment banking deals are done in small teams of **4-6** bankers who usually work with one analyst, one associate, one vice president, possibly a director, and the lead managing director on the deal (Street of Walls, 2019).

- Workflow is executed from the bottom-up: analysts create the material, which is quickly approved up the team hierarchy, to the managing director on the deal. The managing director will have final say on all deal material before it is shown and shared with the client (Street of Walls, 2013)..
- It is very common for deal teams to consist of bankers from across product or coverage groups depending on the type of deal or engagement (Street of Walls, 2013).

→ Go to the [Appendix](#) for more detail about corporate hierarchy in investment banks (more than the investment banking division)

2.7 Compensation & Hours

Compensation: First-year investment bankers typically receive a \$10k signing bonus and \$70k base salary. Interns are usually compensated on a pro-rated basis, based on first-year salaries plus overtime. Bonuses will be paid out at the end of the year and can vary significantly as a function of the banker's productivity as well as the performance of the group and the bank as a whole (Street of Walls, 2013).

Hours: Investment banking analysts generally work 80-110 hour workweeks – expect to have very little free time outside of the office, especially during the first year on the job. A typical day will be somewhere in the range of 10am to 2am; this often includes weekends (or at least part of them). This schedule will likely stay the same for all seven days of the week and pulling all-nighters (or sometimes multiple in a row) is common. In recently years, banks start to implement protected Saturdays, but the enforceability varies across firms and groups (Street of Walls, 2013).

- The higher you go up the ladder, the less time at the office – associates usually put in less time than analysts, VPs put in less time than associates, etc (Street of Walls, 2013).

2.8 Internship Structures

The internship normally lasts ten weeks. If your internship is at a bulge bracket, you will go through a placement day and be placed into a specific group, healthcare for example; if you work at a smaller bank, you are likely to receive a generalist offer and you will work on assignments from different groups. Internship typically starts late May/early June of your junior year with the recruiting timeline starting in April of your sophomore year throughout the summer leading into your junior year. If you are very interested in investment banking and want to gain relevant experience prior to internship recruiting, looking into summer conferences or rotational programs at the banks your first-year or sophomore year is a good idea.

2.9 Common Tasks for Analysts

Duties performed by an analyst include company valuation, compiling pitch books and building complex financial models. See the table below.

Responsibility	Descriptions	Typical Deliverable
Financial Analysis	Use of excel models to provide transaction, valuation, and/or financial analysis	DCF, LBO, Comparable Companies and Comparable Transactions (Comps), Merger Models, Working Capital Analysis, Flow of Funds, etc.
Research	Perform detailed research and due diligence on industries covered. Analysts will use information from a variety of databases to analyze trends, competitors, capital markets, and other industry dynamics.	Industry-related slides for pitch books and other ad-hoc reports that are used to help prepare senior level bankers prior to meetings
Create Pitch Books	A pitch book are marketing material for the bankers to present to corporate clients to secure deals	A PowerPoint presentation that includes firm qualifications, industry research, potential buyer/investor pools, valuation analysis, and transaction considerations
Other Responsibilities	Analysts at a boutique investment bank will also be asked to attend client meetings, prepare marketing materials, and assist with deal management	Client presentations, investor presentations, offering memorandums, creation and management of data rooms

3. Recruiting Components

3.1 The Recruiting Schedule

Street of Walls (2019) explains that generally, the largest investment banks are the ones with the most structured interview processes—they have a thorough and rigid recruiting game plan each year. This differs from smaller boutiques, who will usually hire more on an as-needed basis. The investment banking recruiting process at larger banks is typically divided between “core” and “non-core” college recruiting. Different phrasing used could be called “target” and “non-target” as well. Banks have a certain number of core (target) schools at which they interview on-campus each year; they typically allocate a certain number of job slots from each school for their incoming analyst and associate classes. Whatever is leftover after “core” interviewing constitutes the “non-core” recruiting; this process typically trails core interviewing by a few months (Street of Walls, 2019).

Core recruiting makes up roughly 70% of total hiring for analyst programs for the Bulge Bracket banks. The makeup of recruiting from “core” schools always differs by bank, but it will typically include core school recruiting from the top 10-15 business and liberal arts schools across the country (Street of Walls, 2019).

Non-core recruiting is conducted differently. Most candidates are introduced to the recruitment process via internal referrals and, to a lesser extent, online applications. You are competing for internship slots with tens of thousands of applicants from other non-core schools and that is why networking is extremely important to make you stand out and validate your credibility (Street of Walls, 2019).

Now, compare this to the number of job slots: a typical Bulge Bracket investment bank generally hires about 60-80 first-year analysts every year, with a majority being internship hires. Roughly, 900 first-year analysts are hired every year in the United States, with a majority of these coming from the Bulge Bracket banks (Street of Walls, 2019). Things may be different in terms of hiring needs during times of economic downturn.

3.2 Core Recruiting Process

Street of Walls (2019) explains how the core recruiting process is done in 3 steps. (Steps 4 and 5 are strictly on the candidate side and do not directly affect the banks themselves.)

STEP 1: SUBMITTING RESUME / INFORMATION SESSIONS

The first step is applying online via Doreways and/or through the individual banks' websites. Make sure you are checking the dates/deadlines! (Maybe put together a little spreadsheet to stay organized). The investment banks will then bundle up the collected resumes into a book and send them around their office for current investment banking employees at the bank to peruse (usually 1st and 2nd year analysts) (Street of Walls, 2013).

Banks will also host information sessions on college campuses a month or two before interviewing starts. The information sessions typically only last for an hour and it gives candidates an opportunity to learn more about the bank and network with a few professionals from the firm. These information sessions provide candidates a great opportunity to stand out. Come prepared to these sessions with thoughtful questions and make sure to follow-up with thank you emails (Street of Walls, 2019).

STEP 2: ON-CAMPUS INTERVIEW

Interviewees are selected for on-campus interviews based on feedback from the information sessions and their resumes. The investment banks will work with the Vanderbilt Career Center to schedule a time to interview accepted candidates on-campus. These generally consist of 30-45 minute interview slots, where candidates will meet with 1-2 investment bankers (usually Associates and VPs). There will be both behavioral and technical questions asked — so make sure spend a lot of time in advance preparing for classic investment banking interview questions beforehand (Street of Walls, 2019).

STEP 3: SUPERDAY

The third step in the core recruiting process is called a "Superday" (or something similar). A Superday will typically be your final round of interviews, and it can be grueling. It will occur on-site at the bank, and it usually lasts from about 8am to 6pm with as many as 8-12 interviews. At the bare minimum, you will meet with at least one analyst, one associate, one VP and one MD. Plus, there will be interviews with 4-8 other individuals of various groups/ranks within the firm.

Each of these interviews will typically last for 30-45 minutes. There is no “standard” interview format: some candidates might get all behavioral questions and some might get all technical questions, so be prepared to expect either (Street of Walls, 2019).

STEP 4: THANK-YOU NOTES

It is essential to send a “thank-you” note to everyone you meet with on your Superday. This will not “make or break” your offer — decisions are made very quickly and a thank-you note most likely will have little impact — but it helps to develop that relationship and demonstrate respect for the bankers’ time especially if it is a bank you would like to work for in the future (Street of Walls, 2019).

STEP 5: HEARING BACK

This is the easy part. If you are getting a job offer, you will generally hear back almost immediately (either during the Superday or on the following day). If you do not hear back immediately, it doesn’t necessarily mean you didn’t get the offer – sometimes it can take a few days – but as each day passes the odds of an offer coming decrease significantly. If you have not heard back within 4-5 days feel free to send the bankers that you met a follow-up thank-you email reaffirming your interest in the position – but at that point, recognize that it has become potential a long-shot to land the internship at best (Street of Walls, 2019).

3.3 Non-Core Recruiting Process

LANDING THE NON-CORE INTERVIEW

Street of Walls (2019) mentions that because the competition is intense for the non-core recruiting process, it is essential to be not only as prepared as possible, but also as connected as possible. Candidates who have connections in the field are far more likely to get a chance to interview with investment banks.

The first step in the process is to apply online for investment banking positions. After you apply online, you will have your own personal login, so that you can post your current resume and update information as it changes (Street of Walls, 2019).

These days, with top job opportunities becoming intensely competitive, applying online with a great resume, stellar GPA, and good work experience may not be enough to ensure an interview. You will often need some internal help. Generally, the best way for a non-core candidate to land a first round interview is by having an employee at the bank refer your resume to the Human Resources/Recruiting department. The higher up the employee, the better your chances of actually landing an interview (Street of Walls, 2019).

Networking is the key to success for non-core applicants. First, start with people you may already know who work in the industry. Get in touch with every family friend, relative, or friend-of-friend you know and see whether they know anybody that works in investment banking that you might speak with. Then, university alumni should be your next resort. Work with Vanderbilt's alumni network to find contacts that currently work in investment banking at firms of interest to you. You can find contacts either through [VUconnect](#) or through Vanderbilt alumni page on LinkedIn (Log in your LinkedIn account → search for "Vanderbilt University" and click our home page → go to the "Alumni" section on the left toolbar → enter firms of your interest in the search box).

As soon as you feel that you have a good base of contacts, send out emails to everyone asking if they would be open to speaking over the phone (or grab coffee if you are local) about their job, experience in investment banking, and how the recruiting process at their bank works. Most people are more than happy to speak over the phone with someone looking for assistance in the process, especially if they believe that person is serious about the industry and could be a good candidate for it.

→ See [Appendix](#) for some email templates.

HIREVUE: VIDEO INTERVIEW

HireVue video interviews are newer to the investment banking recruitment process. Mergers & Inquisitions (2019) explains how the HireVue process works. Shortly after you submit your application to a large bank for an internship or entry-level full-time role, you will receive an invitation to complete a video interview otherwise known as a HireVue. You will have to complete the interview within a few days. The interview consists of 3-5 questions that will pop-up on your screen. For each question, you receive approximately 30 seconds of preparation time, and then you get 90 seconds to recite your answer into your webcam while it is being recorded. The questions are mostly behavioral/fit, along with an occasional market/deal or easy technical

question. Some firms let you re-record your answer a few times if you were unhappy with your first attempt. The entire recording session will last 10-15 minutes altogether. Then, an employee of the bank or an Artificial Intelligence (AI) program will review your responses (Mergers & Inquisitions, 2019).

FIRST ROUND: PHONE INTERVIEW

Congratulations, if you have landed a first-round interview it is the most difficult part of the non-core interview process. You should now feel more confident, because your resume was selected from among thousands of other hopeful candidates. The next step is being successful in your first-round phone interview.

Phone interviews are generally conducted by Associates and Vice Presidents within the bank. What usually happens is that the Human Resources department will give the banker 5 to 7 resumes and will tell him/her to rank the people he/she speaks with from best to worst. Typically, only the top 1-2 people on the list will go on to final round interviews (Superdays). Their primary goal is to reject candidates who are unlikely to fit the needs of the job, because they are unprepared, do not have the right personality, or are not serious about investment banking (Street of Walls, 2019).

The first round is generally less technical than the Final Round (Superdays), and is used primarily to gauge the personality and cultural fit of potential candidates. If the candidate can hold a casual conversation with the interviewer while simultaneously showing that they want the job more than other candidates, they will do very well (Street of Walls, 2019).

Street of Walls (2019) lists a sample of questions that interviewers are very likely to ask in first round or also known as phone interviews.

TYPICAL PHONE INTERVIEW QUESTIONS:

Tell me about yourself.

Why do you want to be an Investment Banker?

Why do you want to work at this Investment Bank?

Tell me about the classes you are taking. What are your favorite and least favorite classes?

What are your biggest strengths and weaknesses?

Walk me through a Discounted Cash Flow analysis (DCF).

What are the different valuation techniques?

Walk me through the major sections or line items of an Income Statement, a Balance Sheet, and/or a Statement of Cash Flows.

PREPARATION

One very successful technique for preparing for the First Round interview is to make use of mock interviews. Ask a friend or request a coaching appointment at the Vanderbilt Career Center to help you answer the questions listed above. Your answers can sound very different in your head from when you actually verbalize them in front of someone else in an interview. Go through these mock interview multiple times; identify where you are performing strongly and where you need to work on your responses; and practice them repeatedly. Once you feel confident in your ability to verbalize these answers, you are that much closer to being fully ready for your first round phone interview (Street of Walls, 2019).

The general rule of thumb in a first round investment banking phone interview is that you cannot stumble on any of the technical interview questions that arise. The technical questions in a first-round interview usually are not the most difficult, but you still should be prepared to answer them. Bankers generally like to ask these questions to gauge that you have done your homework. You can make a cheat sheets for questions that could be asked to prepare in advance (Street of Walls, 2013).

➔ Please see [Appendix](#) for a sample phone interview cheat sheet.

THANK YOU LETTER

After your phone interview, be sure to follow-up with a thank you letter (typically an email unless you want to write out a handwritten card) to the recruiter. You will generally hear back regarding your phone interview within 2 weeks, and even sometimes within days (Street of Walls, 2019).

3.4 Key Resources

Investment Banking Industry & Internships

- [How To Find IB Internships \(Step By Step\)](#)
- [How To Prepare for IB Summer Recruiting](#)
- [Vault](#)
- [What Does An Investment Banker Do?](#)

Informational Interviews

- [WSO Good Questions To Ask In Coffee Chats For Investment Banking](#)
 - A list of sample questions you could ask the bankers.
- [“What are good questions to ask investment bankers? For your coffee chats, interviews, and calls with The Lobby”](#)
 - A solid list of more nuanced questions you could ask during an informational interview.
- [“M&I Investment Banking Informational Interviews: How to Use Them to Break into the Industry”](#)
 - Here is a great blogpost that tells you the ins-and-outs of an informational interview.
- [Coffee Chats and Informational Interviews](#)
 - This article provides tips on high-level valuation concepts to understand.

Resumes

- [WSO Investment Banking Resume Template](#)

Networking

- [Cold Email Templates](#)
- [Mergers & Inquisitions – Investment Banking Networking](#)

Behavioral & Technical Interview Preparation

- [Wall Street Oasis Guide](#)
 - [Register](#) for an account using your Vanderbilt email address; exclusive to Vanderbilt students.
- [Wall Street Mojo](#) & [Wall Street Prep](#) & [Breaking into Wall Street](#)

- Free modeling courses.
- [The 400 Investment Banking Interview Questions & Answers You Need to Know](#)
- [Mergers & Inquisitions](#)
 - Detailed articles on most frequently asked interview questions.
- [Investment Banking Interview Questions with Wall Street Oasis](#) – Technical and basic interview questions with sample answers.
- [Interview Investment Banking Questions and Answers with Mergers and Inquisitions](#) – Technical and basic interview questions with sample answers.
- [What is a Superday?](#)

Modeling

- [The Ultimate Guide to Financial Modeling Best Practices](#)
 - Free article on modeling best practices.

Finance Publications

- Wall Street Journal ([Free access through Vanderbilt](#))
- Financial Times
- Barron's (weekly)
- Dealbreaker (online M&A tabloid)

Books

- The Accidental Investment Banker by Jonathan Knee *
- Monkey Business: Swinging Through the Wall Street Jungle by John Rolfe and Peter Troob
- Liar's Poker by Michael Lewis *
- Barbarians at the Gate by Brian Burrough
- Den of Thieves by James Stewart
- House of Cards by William Cohnan
- *The Big Short* by Michael Lewis*
- *The Predators' Ball* by Connie Bruck
- *Uncontrolled Risk* by Mark Williams
- *When Genius Failed* by Roger Lowenstein
- Monkey Business - John Rolfe and Peter Troob

- The Secrets of Economic Indicators - Bernard Baumohl
- Too Big to Fail - Andrew Ross Sorkin
- Investment Banking: Valuation, Leveraged Buyouts, and Mergers and Acquisitions - Joshua Rosenbaum and Joshua Pearl (***)

*highly recommended

Movies

- Wall Street
- Wall Street II
- Boiler Room
- Inside Job
- Barbarians at the Gate
- Too Big to Fail

Best Internet Resources Overall

- Blog: <http://www.mergersandinquisitions.com>
- Forum: <http://www.wallstreetoasis.com>
- Terms: <http://www.investopedia.com>
- News: WSJ.com
- Industry-specific News:
 - Dealbook.nytimes.com
 - Dealbreaker.com
 - Bloomberg.com
 - CNBC

Go to [Appendix](#) for more resources

4. Conferences | Rotational Programs (Sample List)

An additional way to stand out and gain relevant experience before internship recruitment is through conference and summer rotational programs. Below is a list of some conferences students can apply for to gain relevant experience and get connected to banks early on.

- Wells Fargo: Freshman Diversity Finance Forum Sophomore Diversity Forum Leadership Pipeline Program
- JP Morgan: Sophomore Development Program, Chase Leadership Development Program, Winning Women Program
- Key Bank: Women in Corporate & Investment Banking Conference
- HBS (Peek Week): Peek Week
- Credit Suisse: Sophomore Diversity Program & Sophomore Women's Mentor Program
- Goldman: Women's Leadership Camp, Freshmen & Sophomore Diverse Abilities, First Generation and Minority Undergraduate Camp
- UBS: Corporate Client Solutions (CCS) Sophomore Women's Program
Global list of programs
- Lloyds Bank—Women in Banking Recruiting Event
- Stifel Women in Banking Recruiting Superday
Girls Who Invest
- Women WAVE Forum
- Forte

5. Alternative Options

- [You Didn't Get Any Investment Banking Summer Internship Offers. Now What Do You Do?](#)
- [What to do if you don't get a summer analyst internship at an investment bank](#)

6. Appendix

6.1 Overview of Career Opportunities

Buy side vs. Sell side

The buy-side refers to the asset managers who represent individual and institutional investors. The buy-side purchases investment products with the goal of increasing its assets. The sell-side refers to the functions of an investment bank. Specifically, this includes investment bankers, traders and research analysts. Sell-side professionals issue, recommend, trade and “sell” securities for the investors on the buy-side to “buy.” The sell-side makes money not through a growth in value of the investment (like the buy side), but through fees and commissions for facilitating these services (Vault, 2009).

Front Office vs. Middle Office vs. Back Office

- Front office refers to any group that generates revenue for the firm – investment banking, wealth management, private equity, and sales & trading are all examples. One exception: sell-side equity research is still “front office” even though it doesn’t directly bring in revenue (10X EBITDA, 2019).
- Middle office investment banking services include compliance with government regulations and restrictions for professional clients such as banks, insurance companies, finance divisions, etc. Risk management is a large area of this office, encompassing market/credit risk and risk administration. Some do not distinguish the middle office category; it is sometimes lumped into the category of back office (10X EBITDA, 2019).
- The back office services include the nuts and bolts of the investment bank. It handles things such as trade confirmations, ensuring that the correct securities are bought, sold, and settled for the correct amounts, the software and technology platforms that allow traders to do their job are state-of-the-art and functional, the creation of new trading algorithms, and more. The back office jobs are often considered unglamorous and some investment banks outsource to specialty shops such as custodial companies. Nevertheless, they allow the whole thing to run. Without them, nothing else would be possible (10X EBITDA, 2019).

Core Activities at Investment Banks (In-Depth)

1. Investment Banking Division/Corporate Finance:

The investment banking division (IBD) is generally divided into industry coverage and product groups. Industry coverage groups focus on a specific industry, such as healthcare, industrials, or technology, and maintain relationships with corporations within the industry

to bring in business for a bank in the form of M&A, debt, and equity raises (IPOs). Product coverage groups focus on financial products, such as mergers and acquisitions, leveraged finance, public finance, asset finance and leasing, structured finance, restructuring, equity, and high-grade debt and generally work and collaborate with industry groups on the more intricate and specialized needs of a client towards the end of a deal process. Product coverage groups include M&A, Leveraged Finance, Equity Capital Markets, and Debt Capital Markets. Lastly, industry groups cover all products and product groups cover all industries (Wikipedia, 2020).

2. Mergers & Acquisitions (M&A):

Full-service investment banks are large international financial players who offer a wide range of services to their clients. These banks offer merger & acquisition expertise in both domestic and sophisticated international transactions. M&A groups manage transactions including leveraged buyouts, divestitures, corporate restructurings, acquisitions, joint ventures and mergers, to name a few. Other related services extend to takeover defenses and managing shareholder relations (Wikipedia, 2020).

3. Sales & Trading:

In simple terms, they buy and sell products. These might be financial products such as shares in companies, foreign exchange, or commodities such as gold, beef, oil or natural gas. The salespeople are generally known as brokers or dealers. A big part of their job is contacting existing or potential clients to try to sell them financial products (for example stocks and bonds). Traders are the people who actually do the buying and selling on the financial markets. They access the markets through an array of computer monitors each showing movements of stocks, bonds, commodities and various other financial products. They'll also have up-to-the minute news and research streamed live to them, so that at any moment they can press a button to buy or sell the product they're tracking (Wikipedia, 2020).

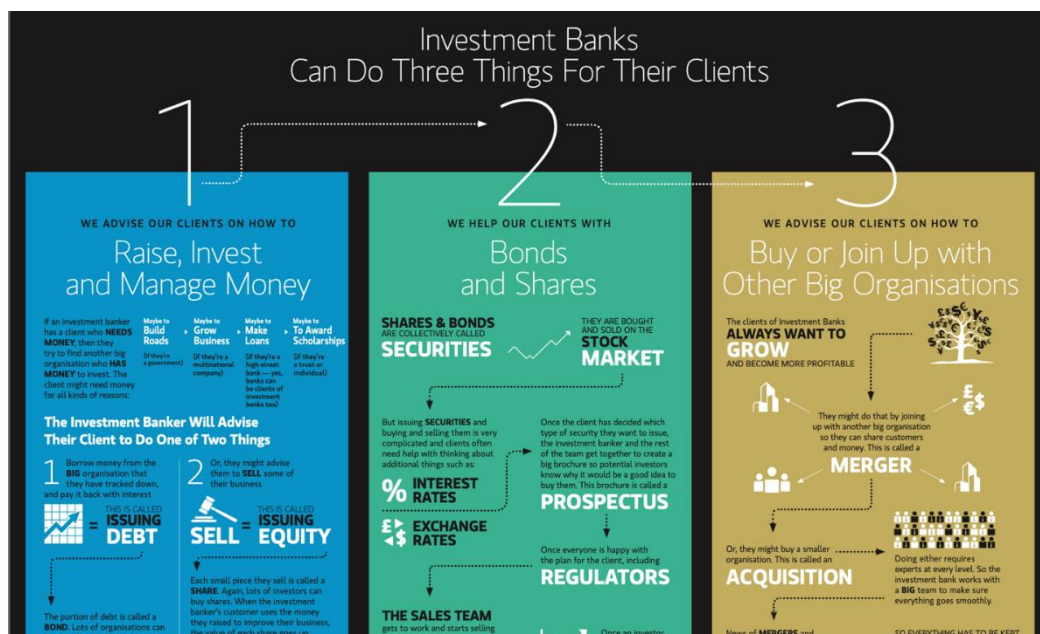
4. Asset Management:

Asset-management is the management of securities and other assets for an investor. The investor may be an individual (such as in cases of private-wealth management), a

corporation (including those involved directly in the finance industry, such as investment banks and hedge funds), an organization (whether it be an NGO or governmental, for profit or non-profit) or any other potential owner of a portfolio of assets (for example, universities). In the case of wealth management, this is sometime referred to as the private bank, referring to customer service rendered on a more personal basis than in mass-market retail banking. Private banking is for people with much higher net worth. Private wealth is usually \$250k or greater in liquid net worth, while private banking is \$5 million or greater (Wikipedia, 2020).

5. Equity Research

The research division reviews companies and writes reports about their prospects, often with “buy” or “sell” or “hold” ratings. While the research division may or may not generate revenue, its resources are used to assist traders in trading, the sales force in suggesting ideas to customers, and investment bankers by covering their clients. Research also serves outside clients with investment advice in the hopes that these clients will execute suggested trade ideas through the sales and trading division of the bank, and thereby generate revenue for the firm. There is a potential conflict of interest between the investment bank and its analysis, in that published analysis can affect the bank’s profits. Hence in recent years the relationship between investment banking and research has become highly regulated, requiring a Chinese wall between public and private functions. In fact, some firms outsource this function of the bank. Sell side is selling research, advice and securities it created to the companies and investors. Whenever you see a report that advises you to buy, sell, or hold the stock, that’s coming from the sell side of the business (Wikipedia, 2020).



6.2 Hierarchy (In-depth)

The hierarchy within the investment banking division is very well defined. The actual role names may differ from region to region and bank to bank, but all follow the same general pattern. However, there are some exceptions; for example, the two main levels in Equity Research are Associate and Research Analyst – and they're the opposite of IB, so the Research Analyst is the senior person *above* the Associate. Sales and trading has a different kind of hierarchy; while the positions are almost the same, sales/trading analysts are not expected to get their MBA, and promotions do not come every couple of years (Wall Street Oasis, 2015).

- **IBD:** Analyst → Associate → Vice President → Senior VP/Exec Director → Managing Director (MD) → Group Head/C- level/etc
- **Equity research:** Associate → Research analyst → Vice President → Senior VP/Exec Dir. → Managing Director (MD) → Group Head/C-level/etc
- **Sales/Trading:** Analyst → Associate → Vice President → Managing Director/Partner

Most new college graduates start a career in investment banking working as an analyst. College interns are often offered a full-time position as an analyst after they graduate, and the *junior year summer analyst position* is the typical pipeline into a full-time analyst role (Wall Street Oasis, 2015).

6.3 More Resources

- [Careers in Finance](#)
- [EFinancial Careers](#)

6.4 Difference between Investment Banking and Commercial Banking

See the relevant section [here](#)

6.5 Investment Banking Analyst Program

Investment banking analysts are the workhorses of an investment banking team; they are typically straight out of top undergraduate programs, and join the bank for **a two-year analyst program** starting in the late summer after graduation, with the possibility of a third year option in certain instances.

Training: The Bulge Bracket banks will send their analysts through approximately two months of intensive technical job training to prepare for the workload ahead. This involves going through classroom-style teaching, learning the ins and outs of accounting, financial statement analysis, corporate finance and valuation, and financial modeling, with specific training in needed computer applications such as Microsoft Excel and PowerPoint.

6.6 Cold Email Templates

Cold Email to give an informational coffee chat/phone call

Dear John,

My name is Jack and I am currently a Economics major at Vanderbilt University. I am eager to learn about the investment banking industry. I received your information from our alumni directory and would love to speak with you regarding the Bank of America Merrill Lynch Summer Analyst Program. It would also be great if I could hear your perspective on the investment banking industry and your experience at the firm. Would you be available to either have coffee or speak over the phone for 15-20 minutes? As a fellow Commodore, I would really appreciate your help. Thank you, and I look forward to hearing back from you.

Regards,

Jack

6.7 Phone Interview Cheat Sheet

First-round phone interviews are generally very predictable, and because they are conducted over the telephone, the interviewer will not be able to tell that you're referring to reference materials while responding. Thus it makes sense to have this sheet available during the call:

Investment Banking Phone Interview Cheat Sheet

Financial Statements	Valuation Techniques	Questions
<p>3 Financial Statements:</p> <ol style="list-style-type: none"> 1. Income Statement 2. Balance Sheet Statement 3. Cash Flow Statement 	<p>Enterprise Value = Debt + Preferred Equity + Minority Interest – Cash</p> <p>Equity Value = Stock Price * Shares Outstanding (same as market cap)</p>	<p>What do Investment Banks do?</p> <p>Investment Bankers provide advisory and due diligence for Mergers & Acquisitions, Equity Financings including IPO's and Secondary offerings and debt offerings</p>
<p>Income Statement</p> <p>Revenue</p> <ul style="list-style-type: none"> - COGS (cost of goods Sold) Gross Profit - Operating Expenses (SG&A, Comp, etc.) Operating Income (EBIT) - Non-operating Expenses (Interest Expense) - Taxes Net Income 	<p>Valuation Techniques:</p> <ol style="list-style-type: none"> 1. DCF 2. Comparable company analysis 3. Precedent transaction analysis <p>1. DCF – (see DCF Page) Valuing a Company based on its future cash flows and using a discount rate to value those cash flows today</p> <p>2. Comparable Company Analysis – valuing a company based on the valuation of similar companies within the same field</p> <p>3. Precedent Transaction – valuing a transaction using past transaction of similar companies within the same field</p> <p>Multiple – a metric used to in valuation of a company. Use the valuation techniques above to derive valuation multiples, shown below</p> <p>PE, EBITDA & Revenue Multiples</p>	<p>Typical Day?</p> <p>I know analysts are expected to go through 2 years of finance boot camp. I expect the hours to be long, mostly doing financial modeling, making pitch-books, doing due-diligence, and rescheduling plans with their friends.</p> <p>Why Investment Banking?</p> <p>One of the best advice my dad gave me was whatever you do, "Put yourself in a position to succeed". And I think right out of college, I-banking hands-down offers the best experience available. I know the work is going to be tough and the hours excruciating, but I enjoy the pressure and challenge to execute. Also contrary to accounting, finance is unpredictable and exciting; I enjoy the fact that there is never a typical day.</p>
<p>Balance Sheet</p> <p>ASSETS</p> <p>Current Assets</p> <ul style="list-style-type: none"> Cash & Cash Equivalents Short-term investments Inventories <p>PP&E (Plant Property & Equipment)</p> <p>Total Assets</p> <p>LIABILITIES</p> <p>Current Liabilities</p> <ul style="list-style-type: none"> Accounts Payable Short term debt <p>Long Term Debt</p> <p>Total Shareholders Equity</p>	<p>PE Multiple – (Stock Price / EPS)</p> <ul style="list-style-type: none"> ➢ Good b/c it goes all the way down to NI ➢ Disadvantage b/c differences in the amount of net debt also lead to differences in interest expense and earnings <p>EBITDA Multiple – (EV / EBITDA)</p> <ul style="list-style-type: none"> ➢ Good proxy for Cash Flow ➢ But excludes CapEX & Interest payments <p>Revenue Multiple – (EV / Revenue)</p> <ul style="list-style-type: none"> ➢ Rarely Used. Apply to Company with no Earnings, usually tech or healthcare companies with no income yet 	<p>Why this middle-market bank?</p> <p>I have spoken to many people within my career center - very good reputation.</p> <p>Also, this bank as a Middle Market bank offers a unique experience, an opportunity to gain exposure with higher level executives and also the opportunity if I work in the M&A group to work on both buy side and sell side deals That's definitely something that Bulge Brackets can not offer</p>
<p>Cash Flows</p> <p>Operating Activities</p> <ul style="list-style-type: none"> - Net Income - D&A (Depreciation & Amortization) - Stock based Compensation <p>Investment Activities</p> <ul style="list-style-type: none"> - Purchase of Land & Equipment <p>Financing Activities</p> <ul style="list-style-type: none"> - Purchase of stock <p>When Depreciation goes ↑ by \$100?</p> <ul style="list-style-type: none"> ➢ Tax rate (40%) then net income will ↓ by \$60. ➢ Cash flow from operating activities ↑ by \$40 ➢ Assets ↓ by \$60, from a ↓ in PP&E \$100 & ↑ cash by \$40 ➢ Retained earnings ↓ by \$60 (now you're balanced) 		

6.8 Off-Cycle Recruiting

The smaller boutiques and middle market investment banks usually have a less structured interview process in terms of guidelines and dates. Boutiques in particular will usually hire on a need-only basis, so interviewing at these firms can happen throughout the year. If you find yourself behind the calendar in terms of preparedness, I suggest targeting the boutique and middle market investment banks rather than trying to break into the Bulge Bracket bank interview processes, which will likely be completely unsuccessful.

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